



## Where To Take Your Franchise In 2013 And Why

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This article will update you on international licensing activity in the past year and look at trends for 2013. We will also look at key parameters a franchisor should consider when deciding whether to enter a new country.

#### 2012 International Franchise Development

2012 has been a year of excellent international growth for US franchisors. New international license agreements have been announced by small, medium and large franchisors in many diverse international markets. US education, food and beverage, retail and service franchises are all seeing new international licenses signed.

Although new franchise growth has been slow in Western Europe and the USA where the Gross Domestic Product (GDP) growth rates have been 2% or less, emerging economies with economic growth rates of 4%+ more have seen almost all the new licensing in 2012. This is simply because in such countries there is considerable new business development happening.

The key growth markets in the past year have been China, India, Indonesia, Mexico and the Middle East. In addition to having high economic growth rates, these countries have a fast growing middle class consumer base. This is who will be buying the products and services of your franchise. So the second parameter to consider is the size of the consumer base that can afford to buy what your franchise sells.

How big is this middle class? Based on World Bank and McKinsey studies, a 'middle class' consumer is one who has 1/3 of their income left after they pay the rent, food costs and transportation costs. New middle class consumers in emerging markets now can decide where they spend their discretionary income. They often look for brand, quality, convenience and customer service. All of these are aspects of a USA franchise!

China, India, Indonesia and Brazil alone have a total middle class consumer base under this definition of almost 600 million.

Increasingly, we are seeing US franchises of all sizes Go Global. Often relatively new franchisors receive interest in their early stage franchise through their Internet marketing. The key to success outside the US is the same as inside the US: the franchise has to have the training, support, marketing and technology resources for their unit franchisees to get a good rate of return out of the business.



## **What About 2013?**

Because it often takes a year or more to find, qualify and sign an international licensee, it is time to look forward to 2013. Will the same countries be the focus in 2013? Yes and no.

Economic Growth Rate - Once again, it appears important to focus your international marketing efforts on those countries where the GDP growth rate is high and local companies are seeking new businesses to build, own and operate. Simply put, go where the money is!

Political and Economic Stability - For 2013, however, it is also important to look at the political and economic stability projections especially for 'emerging markets', the developing countries. Although the 'Economist' magazine estimated in mid September that Egypt and South Africa would have strong GDP growth rates, the political unrest makes these countries to think very seriously about before granting a license in 2013.

Legal Environment - Analyze the legal playing field before spending your marketing dollars in a country. Be sure that your franchise development model will work in the country. The #1 legal challenge remains securing your trademarks before someone else does. If your franchise is serious about licensing into a country, please invest in filing for your marks first. And be sure you do a trademark search to see if there is a similar mark that will keep you from using the brand that people in international markets know. And determine if the country's laws and regulations will allow your franchise to protect its brand should you need to replace the licensee.

Market Research - A good example of the need to do some market research into a country is Indonesia. This has been a strong, fast middle class growing market for franchises for some years. The annual GDP growth rate is over 6%. This 240 million population country is adding almost 10 million new middle class consumers a year. But recently the government announced new franchise regulations that make it far more difficult to start and grow a franchise in a way that will allow the license and franchisor a good return on their investment.

And although China is projected to have a GDP growth rate of over 8% in 2012, the country needs growth of over 7% just to keep up with the fast growing employment age population. The good news is the rapid wage increases of 20% per year or more are helping increase the buying power of the middle class, two-income family. Market research will tell you whether there is a sufficient consumer base with the income needed to buy your products or service in a country.

## **Okay, Where Do We Take Our Franchise In 2013?**

The following GlobalVue™ Country Ranking provides parameters that are important to signing, building and growing a global franchise brand.

| <b>Countries/Regions</b>  | <b>Expected<br/>2013 GDP<br/>Growth</b> | <b>Market<br/>Size<br/>(Customers)</b> | <b>Legal<br/>Concerns For<br/>Intl. Brands</b> | <b>Ease Of<br/>Market Entry<br/>Intl. Brands</b> | <b>Ease Of<br/>Starting A<br/>New Business</b> | <b>Political &amp;<br/>Economic<br/>Stability</b> | <b>Overall<br/>Country<br/>Ranking</b> |
|---|---|--|--|--|--|---|--|
| Chile   | 1                                       | 3                                      | 1  | 1  | 1  | 1   | 1.3                                    |
| USA   | 3                                       | 1                                      | 2  | 1  | 1  | 1   | 1.5                                    |
| Colombia  | 1                                       | 2                                      | 2  | 1  | 2  | 2   | 1.7                                    |
| Japan   | 3                                       | 1                                      | 2  | 2  | 1  | 1   | 1.7                                    |
| United Kingdom  | 3                                       | 1                                      | 2  | 2  | 1  | 1   | 1.7                                    |
| Urban China   | 1                                       | 1                                      | 2  | 2  | 2  | 2   | 1.7                                    |
| Canada  | 3                                       | 2                                      | 2  | 2  | 1  | 1   | 1.8                                    |
| Australia   | 2                                       | 2                                      | 2  | 3  | 1  | 1   | 1.8                                    |
| Brazil  | 1                                       | 1                                      | 2  | 2  | 3  | 2   | 1.8                                    |
| Germany   | 3                                       | 1                                      | 2  | 3  | 1  | 1   | 1.8                                    |
| Mexico  | 2                                       | 1                                      | 2  | 2  | 2  | 2   | 1.8                                    |
| Philippines   | 1                                       | 2                                      | 2  | 2  | 2  | 2   | 1.8                                    |
| India   | 1                                       | 1                                      | 2  | 3  | 3  | 2   | 2.0                                    |
| Indonesia   | 1                                       | 1                                      | 3  | 2  | 3  | 2   | 2.0                                    |
| South Africa  | 2                                       | 2                                      | 2  | 1  | 2  | 3   | 2.0                                    |
| Spain   | 4                                       | 1                                      | 2  | 2  | 1  | 2   | 2.0                                    |
| Viet Nam  | 1                                       | 2                                      | 2  | 1  | 4  | 2   | 2.0                                    |
| Central America   | 2                                       | 2                                      | 2  | 2  | 3  | 2   | 2.2                                    |
| Egypt   | 2                                       | 1                                      | 2  | 2  | 2  | 4   | 2.2                                    |
| Ireland   | 4                                       | 4                                      | 1  | 2  | 1  | 1   | 2.2                                    |
| Poland  | 2                                       | 2                                      | 3  | 2  | 2  | 2   | 2.2                                    |
| Malaysia  | 1                                       | 2                                      | 3  | 3  | 3  | 2   | 2.3                                    |
| Middle East Region/GCC  | 2                                       | 2                                      | 2  | 2  | 3  | 3   | 2.3                                    |
| South Korea   | 2                                       | 2                                      | 3  | 3  | 2  | 2   | 2.3                                    |
| Russia  | 2                                       | 2                                      | 4  | 3  | 3  | 3   | 2.8                                    |
| <b>Country Ranking: 1 is best, 2.5 is fair, 4 is worst - Sorted on Overall Country Ranking</b>  |   |  |  |  |  |   |  |
| <b>2013 GDP Growth Ranking: 1 = 4%+, 2 = 2.5-3.9%, 3 = 1.0-24%, 4 = &lt;1% annual growth</b>  |   |  |  |  |  |   |  |
| <b>Data Sources: 'The Economist', EIU, Heritage Foundation, World Bank, Fraser Institute, World Economic Forum, McKinsey, 'the Financial Times', International Monetary Fund, EGS 25 Country GlobalTeam™ Survey</b> |   |  |  |  |  |   |  |

## What Types Franchises Are In Demand Around The World?

Just about everything that we franchise in the US is being franchised elsewhere. Local investors are seeking good, proven business systems to bring to their country that will serve the growing consumer base and yield a good bottom line margin.

We are often asked why US franchises are attractive to buyers in other countries. We have the brands, systems and processes, training programs, support resources, manuals, franchise technology and planning processes that represent a business that can be duplicated worldwide. The international licensee is buying your franchise 'package' that includes all these critical parts to makes a complete business that can yield a good margin. Here are the 'hottest' franchise sectors based on seeing what is happening in 40+ countries.

Automotive – After market products and services

Education – Children's, management, coaching

Commercial Services - Facility management, cleaning, handyman, security

Personal Services – Handyman, maid, mobile, fitness, senior care and various types of personal care

Specialty Food & Retail – Mall anchor concepts, special clothing brands, theme brands, ethnic foods and special food brands

The demand for education franchises is highest in emerging markets where people need management training and parents want an edge for their children in highly competitive markets.

Despite the international franchising of US food and beverage brands for 30+ years, there remains a strong market for our brands in this sector. Large F&B brands continue to see development in the new and growing emerging markets.

Well-established retail brands are desired to fill the new, large regional malls that we find in all emerging markets.

Service business is often the last that develops in a growing market. Once the middle class reaches the point where they want professional services backed by a business rather than the cheap provider off the street we start to see services franchises flourish in a country.

The following chart shows what types of franchises are most in demand in key franchising countries.

| <b>Most Desired License Types By Sector</b> |                  |             |               |                |
|---|------------------|-------------|---------------|----------------|
| <b>'1' Is Most Desired</b>                  |                  |             |               |                |
| <b>Country Or Region</b>                    | <b>Education</b> | <b>Food</b> | <b>Retail</b> | <b>Service</b> |
| Australia                                   | 2                | 2           | 1             | 1              |
| Brazil                                      | 2                | 1           | 2             | 2              |
| Canada                                      | 3                | 3           | 1             | 1              |
| Urban China                                 | 1                | 1           | 2             | 3              |
| Colombia                                    | 2                | 2           | 2             | 2              |
| Hong Kong                                   | 1                | 2           | 2             | 2              |
| India                                       | 1                | 1           | 1             | 2              |
| Indonesia                                   | 1                | 1           | 2             | 2              |
| Ireland                                     | 3                | 3           | 2             | 1              |
| Japan                                       | 2                | 2           | 3             | 1              |
| Malaysia                                    | 1                | 2           | 2             | 2              |
| Mexico                                      | 2                | 2           | 2             | 2              |
| Middle East                                 | 2                | 1           | 2             | 2              |
| Philippines                                 | 2                | 1           | 3             | 3              |
| Singapore                                   | 1                | 2           | 2             | 2              |
| South Africa                                | 1                | 2           | 3             | 3              |
| South Korea                                 | 2                | 3           | 3             | 3              |
| Spain                                       | 3                | 2           | 3             | 2              |
| Turkey                                      | 2                | 2           | 2             | 3              |
| United Kingdom                              | 2                | 2           | 3             | 1              |
| USA   | 2                | 2           | 2             | 1              |
| Viet Nam                                    | 1                | 1           | 2             | 3              |

**More developed countries trend towards service, emerging markets toward education**  
**Based on an EGS GlobalTeam™ survey in 25 countries**

## **Area License Or Master Franchise?**

Over the many years that US franchises have been licensing into other countries, most agreements have been master franchises that allow the local licensee to open and operate their own units as well as to sub-franchise units. Food and Beverage franchises usually have only granted area licenses, who requires the local license to build, own and operate all units in their territory.

Increasingly, we are seeing a trend for more types of franchises to only grant area licenses, especially in emerging markets where finding qualified individual franchisees is extremely difficult. Often this is because sub-franchising is not yet properly developed in places like China and Indonesia.

## **What About Funding For An International Licensee?**

In the U.S. it is difficult for new franchisees to get financing. Money is not a problem in emerging markets. Most overseas licensees are not buying business on credit but are using internal funds. Most of today's international licensees are companies that have proven infrastructure, management and capital available for new investments.

## **In Summary**

2013 looks to be another very active year for US franchisors Going Global. There are many countries where the economic growth rate is sufficient to cause new business to be started and franchises to be acquired. And US franchises provide the proven business systems that international buyers want. But due to the changing economic and political situations, it is more important than ever to research a country before spending your company's time and money to find, evaluate, sign and open a new licensee outside the USA.

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